

ASIAN BUSINESS NEWS

## China Lends Russia \$6 Billion To Help Finance Yukos Deal

**Move Secures Oil Supplies  
For Beijing and Heightens  
Doubts Over Kremlin Plans**

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MOSCOW – China lent Russia \$6 billion to help finance nationalization of the main unit of OAO Yukos, underscoring energy-thirsty Beijing's desire to line up fuel supplies from Russia.

The deal, secured by future oil shipments and announced by Russian officials, also fueled rising uncertainty about the Kremlin's ultimate plan for the unit, a Siberian company called Yuganskneftegaz that by itself produces about 1% of world crude output, or about as much as Indonesia. State oil company OAO Rosneft, which took over Yugansk in December, had been discussing the sale of a 15% stake in Yugansk with state oil companies from China and India, but a person close to the situation said those talks are on hold now that the loan from China has taken the financial pressure off Rosneft.

If it stops there, a loan agreement would fall short of China's overall goal of gaining outright ownership stakes among the world's big oil reserves to feed its surging economy. But a loan agreement is easier to reach because of legal and management control issues and nervousness within Russia over selling parts of its oil industry to other nations.

Russian officials provided few details of the financing arrangement with the Chinese. But the loan in effect is a forward payment for a total of 48 million metric tons of crude oil -- or about 352 million barrels -- Rosneft already has agreed to ship to China by rail through 2010. The contract, a replacement for a similar agreement with Yukos, meets a small portion of China's demand, which is estimated by the International Energy Agency to reach 6.2 million barrels a day this year.



**Steven M. Theede**

The state takeover of Yugansk marked the culmination of a Kremlin campaign to dismantle the empire of Mikhail Khodorkovsky, the politically ambitious Yukos founder, and reassert control over the strategic oil sector lost in the controversial privatizations of the 1990s. The Kremlin drive has raised questions about President Vladimir Putin's commitment to a market economy, the rule of law and Russia's long-term reliability as a global energy supplier.

It also has sparked legal challenges in Russia, Europe and the U.S. from Yukos, which owned Yugansk until it was sold for \$9.4 billion in a controversial December auction to pay off tax claims totaling \$28 billion. While Western energy companies have a deep interest in tapping Russia's vast oil reserves, the threat of legal action has discouraged them from seeking a deal for Yugansk.

Also yesterday, doubts grew about plans announced in September to merge Rosneft into state-controlled natural gas giant OAO Gazprom, creating a Kremlin-run titan with some of the largest oil and gas reserves in the world. Sergei Oganessian, Moscow's No. 2 oil official, said his view is that Rosneft should stay independent and retain control over Yugansk.

That contradicted earlier statements by officials that Yugansk would be spun off into a separate company, while the rest of Rosneft merged into Gazprom. That transaction was to open the way to a long-awaited lifting of restrictions on foreign ownership of the roughly 49% of Gazprom stock that isn't owned by Russian authorities. Yesterday, a Gazprom spokesman said the merger with Rosneft, which already has been delayed several times, remains on track. Rosneft declined to comment.

Russian Finance Minister Alexei Kudrin said Chinese state banks had loaned Russian state bank Vneshekonombank \$6 billion to finance the deal, although it wasn't clear whether he was referring to Rosneft's initial acquisition or a subsequent refinancing. A Vneshekonombank spokeswoman couldn't be reached for comment. Chinese officials in Moscow and Beijing also were unavailable.

Officials and analysts said the financial maneuvering isn't likely to significantly affect oil output at Yugansk, which produces about one million barrels a day of crude. Rosneft has vowed to invest heavily in the unit, which suffered a cash shortage along with the rest of Yukos in the second half of last year.

Yukos Chief Executive Steven Theede said Yugansk had missed a critical window for preparing oil-field work at the end of last year as a result of the financial crisis caused by the back-tax claims and court-ordered freezes on Yukos's bank accounts. Though the unit's monthly production was down 6% in

December from its 2004 peak, "if investment is put into Yuganskneftegaz immediately, there may be a chance to arrest the decline," Mr. Theede said.

Yesterday, Mr. Oganessian, the oil official, said overall Russian production will rise about 6% this year to at least 9.74 million barrels a day from 9.19 million barrels in 2004. After several years of strong gains, Russian output growth long has been expected to slow and analysts said Rosneft's takeover of Yugansk isn't likely to have any dramatic immediate effect.

Yukos officials, meanwhile, vowed to press their legal challenges to the Yugansk sale, which have brought them an order from a U.S. bankruptcy court in Houston that sought to block the auction.

"As of right now, Yuganskneftegaz is stolen property," Mr. Theede said from London. Mr. Theede, who left Russia in the fall, says he won't come back because he fears official "harassment." Other Yukos executives have been questioned and some jailed in relation to the back-tax and other cases against the company.

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